CAUSES AND IMPACT OF NON-PERFORMING ASSETS ON PROFITABILITY OF BANKS- A CASE STUDY OF PUNJAB NATIONAL BANK IN DARBHANGA DIVISION

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INTRODUCTION

Assets that generate income are called Performing assets and those that do not generate income are called non-performing assets. A debt obligation where the borrower has not paid any previously agreed upon interest principle repayment to the designated lender. A Non-performing asset (NPA) is a loan or advance for which the principal or interest payment remained overdue for 90 days. For Example:- A mortgage in default would be considered non-performing. After a prolonged period of non-payment, the lender will force the borrower to liquidate any assets that were pledged, the lenders might write off the assets as bad debt and then sell it at a discount to a collection agency. An asset becomes a Non-Performing Asset (NPA), which is defined generally as credit facilities is respect to two quarters or more. An amount due under any credit facility is treated as "past due" When it has not been paid within 90 days from the due dates. It was, however, decided to dispose with ''past due". A well-developed financially strong banking sector is the backbone of the economic development of any Nation. Banks stimulate the flow of funds in the economy and fuel economic growth. In the post-independence period, the banking sector played a catalyst and commendable role in supporting the government to achieve its social and economic objectives through deposit mobilization, mass branch networking priority sector lending employment generation, etc, Achieving such social objectives resulted in imposing extensive regulations by the government which in turn hampered the productivity of Indian banking during the pre-liberalization era. The assets quality is a prime concern and impacts various performance indicators, i.e., profitability, Intermediation costs liquidity, credibility income generating capacity, and overall functioning of banks. The reduction in asset quality results accumulation of Non-Performing Assets (NPAs).

The Basel Committee on Banking Supervision defines credit risk as the potential default of a borrower to meet the obligation under the agreed terms. Higher non-performing assets in many banks' failures of NPAs represent a real economic cost in modern days as they reflect the application of scarce capital and credit funds to unproductive use. It also affects the lending

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capacity since funds are blocked and repayment distributed and has also resulted in additional costs for intermediation and analysing the NPAs.

Banking reforms were initiated to upgrade the operating standards, health, and financial soundness of banks to an internationally accepted level in an increasingly globalized market. The debate amongst the participants reinforced the overall economy. The reform measures substantiate the view that Highlights the role in economic development that could be played by a banking system free of the controls on interest and quantities that were prevalent at the time. Two decades have passed since the banking sector initiated measures to uplift the banking sector in line with international standards and to improve the productivity and efficiency of banks. Many researches on NPA illustrated the relationship between asset quality and financial distress and considered the management of NPA as a major prerequisite to counter the recessionary pressures and foster economic development. Classification of NPA Assets: Banks are required to classify NPA's further into standard, sub-standard assets, doubtful, and loss assets. Assets of a bank are classified in terms of its repayment status. As performs of RBI-Standard Assets:-Assets which are generating regular income for the bank. Assets in which there is no chance of default and which carry only normal risk attached to the bank are known as 'Standard Assets'. These assets are not considered as non-performing assets. Provision for standard assets is made at 0.25% of all types of standard assets. Standard assets do not Disclose any problems. Such an Assets should not be on NPA.

Sub-standard Assets:- It is one, which has been classified as NPA for a period not exceeding 12 months. If assets remain Non-Performing for a term of up to 12 months are considered sub-standard assets. Provision for sub-standard assets is made at 10% of all types of standard assets—an asset, which is overdue for 90 days but less than 12 months.

Doubtful Assets:-Assets would be classified as doubtful if it has remained in the sub-standard category for more than 12 months. A provision for these assets are made differently for a term of up to one year. Provision for terms up to one year is 100% of the non-secured advance.

Loss Assets:-Loss assets are those assets that cannot be recovered and are called loss assets. These assets can be identified by RBI or by the auditor of the bank.

Reason/ Causes of NPA-In the Past Articles, many authors have found many reasons for NPA. A few are; Market failure wilful defaults, Poor up and supervision, Non-cooperation from banks, and poor legal framework. Lack of Entrepreneurial skills, Diversion of Funds.

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Punjab National Bank:

Punjab National Bank, major circle office is located in Darbhanga, Madhubani. It is a nationalized bank with its headquarters (Dwarka) in New Delhi. India on May 1894, and is the second largest public sector bank in India in terms of its business volume and second largest in terms of its network. The bank has over 180 Million Customers, 12,248 Branches, and 13,000+ATM. Punjab National Bank (PNB) has a subsidiary in the UK. (PNB) International bank, with seven branches in the UK, as well as branches in Hong Kong, Kowloon, Dubai, and Kabul. It owns 5% of Druk PNB has five branches in Nepal, and PNB owns 20% of Everest Bank, which has 122 branches.

LITERATURE REVIEW

Sahoo, M.k, et al (2023) in their study on "Impact of NPA Management on the profitability analysis of Indian commercial Banks", found that gross profit and profitability positively correlated of private sector banks as better in contrast with public sector banks, found that public sector banks operate with overstaffing, large branch banking leads to high operating expenses; Mis-management, loan subsidies, lack of utilization of shareholder's money, etc are not able to generate sufficient profit.

Ishvarbhai, Yogesh Parmar (2022) in his study "A comparative study on NPA at public sector banks & private sector banks of India", analyzed that the banking industry compares capital value, interest earned value, and measurement of net profit /loss to observe the net profit margin(%) value of the years.

Miyan, R. (2022) in his thesis titled "Impact of Non-Performing Assets on Financial Performance of Public Sector Commercial Bank India.- A Case Study of Allahabad Bank Muzaffarpur Circle", found that the Indian banking industry faces the problem of higher provisioning requirements on NPA, which hurts the bank's profitability and capital adequacy ratio. Moreover, it harms liquidity.

Sen, A. (2021) in her study on "Impact of NPA on Borrowers: A Case Study on Selected Indian Privat Sector Banks", analyzed the behavior of landing rates for private banks and the effect of non-performing assets on the customers of public sector banks, specifically borrowers.

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Panday, A.,& Kumar, S(2020) in their study " An Empirical Analysis to Study the Impact of NPAs on the Financial Performance of the Banks in India", found that a significant impact on return on equity and return, assets have a vital role in play in affecting banks not only profitability and shareholder return. NPA in ROA & Roe in the study of reducation and whole financial system.

Wadhwa, R., et al (2020) in their study on the "Impact of NPA on the profitability of Banks", analyzed that net NPA has a significant impact on Net profit, overall credit appraisal, and monitoring banks and agricultural loans.

Bawa, J. K., et al (2019) In their study "An analysis of NPAs of Indian banks: Using a comprehensive framework of 31 financial ratios", analyzed indicator capital, profitability, solvency, business development capacity, capital adequacy, and liquidity he captured the business performance not only at the Functional level But also at the corporate level.

Das, S, & Dutta. A (2014) in their study "A study on NPA of public sector bank in India", emphasized the reason behind the NPA and its impact on banking operations.

Nyor T. & Mejesabi, S.K (2013) in their study on "Impact on Corporate Governance on Non-performing Loans of Nigerian Deposit Money Banks", analyzed corporate government variables of Board size, Board composition, the composition of the Audit Committee, and power separation.

Ongore, et al (2013) in their study on " Determinants of Financial Performance of Commercial Banks in Kenya", found that the effect of liquidity on the performance of Commercial Banks is not strong, capital adequacy and management efficiency were to and for assets quality the relationship was negative.

Chaudhary & Sharma (2011) in their study on "Performance of Indian Public Sector Bank and Private Sector Banks: A Comparative Study", analysed how to manage NPA and profitability. He studied the increased competition, and new information technologies, and their declining processing costs, the erosion of product and geographic boundaries, and less restrictive governmental regulations all played a major role for public sector banks that have been managing NPA.

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RATIONALE OF THE STUDY

From the above literature review, it has been observed that most of the studies have been conducted on Non-performing assets of different banks, such asthe State Bank of India in Patna Circle, and Allahabad Bank in Muzaffarpur Circle etc. However, No such study has been conducted on the Non-Performing assetsof Punjab National Bank in the Darbhanga Division. Therefore, the topic" Causes and Impact Of Non-Performing Assets On Profitability Of Banks – A Case Study Of Punjab National Bank In Darbhanga Division"has been selected for the study.

STATEMENT OF RESEARCH PROBLEMS

Indian Publicsector banks have made significant progress after nationalization in three aspects: Branch expansion, deposit mobilization, and loan maximization. Among these, monitoring of loans took a back seat in an era of mass banking and social banking. In the changing scenario of the operation, Non-Performing Assets (NPAs) have been the most vexing problem faced by public sector banks. The research will highlight the trend in NPAs, the sectoral composition of NPAs, assets quality diagnosis, causes, and the impact of NPAs on the profitability of the target bank i.e, Punjab National Bank, Darbhanga Division. Further, in the study we will recommend suggestion. For managing NPAs in Indian banking setor in general and PNB in particular. Our focus will take reference of profitability of the target bank in the context of NPAs.

OBJECTIVES OF STUDY

The proposed study has the major objective to analyze the cause and effect of NPAs in banking operations, hence the research work will be done with the following objectives:

1. To examine the causes of NPAs in commercial sector Banks.
2. To evaluate the impact of NPAs, specifically on the profitability of Punjab National Bank in Darbhanga Division.
3. To analyze the present position of NPAs of the Punjab National Bank in the Darbhanga Division.
4. To compare the NPA of Punjab National Bank in Darbhanga DivisionwithNational Average Performance.

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HYPOTHESIS

H_{01}: There is no significant impact of NPA on the profitability of PNB

H_{02}: There is no significant difference in the NPA of PNB and other public sector Banks.

H_{03}: There is no significant difference in the NPA of PNB in Darbhanga Division and National average performance.

SIGNIFICANCE OF STUDY

In the post-nationalization period, public sector banks in India have made rapid strides of progress but due to competition, organization constraints fluctuations in the market, and operational inefficiency have been noticed in some cases which is rectified by the banks in the current scenario to some extent. In this context, an attempt has been made to examine: the causes and impact of NPA on the profitability of public sector banks specifically the Punjab National Bank in the Darbhanga division.

The study will be of immense importance to researchers, students, policymakers of banks, academicians, bankers, financial analysts, and the common masses.

RESEARCH METHODOLOGY

The present study will be primarily based on secondary sources such as published annual reports of banks, RBI reports, Annual Reports, magazines, journals, Books, Articles, Internet sources, News reports, etc. This data will be used to analyze the NPA of Punjab National Bank in the Darbhanga Division. The analysis will be done using ANOVA statistics, trend analysis, and other descriptive statistics such as Mean, Standard Deviation, Correlation & Regression Analysis, etc, and other suitable statistical measures with the help of SPSS software. The research study will be descriptive and exploratory in nature.

WORK PLAN

The proposed research study will be arranged into six chapters as follows:

Chapter 1: Introduction

This chapter will be introductory. It will explain the general profile of NPA in the banking sector. It will be present a review of the literature, a statement of the research problem, the

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This chapter will be introductory. It will explain the general profile of NPA in the banking sector. It will be present a review of the literature, a statement of the research problem, the objective, and the importance of the study followed by the hypothesis, methodology, and analytical tools to use. This chapter will also include plan of work.

Chapter 2: Indian Public Sector Bank in India- An Overview

This chapter of the present study will throw light on Indian public Banking systems in India. Indian public Banking system has been instrumental in shaping the economic growth of the country. Against this backdrop, the structure and dynamics of the Indian Public will be explained in this chapter.

Chapter 3: Non-Performing Assets: Conceptual Framework

This chapter of the present study will highlight NPA which Indian Commercial sector banks are facing. This chapter will describe the position of NPA in banks and explain the status of profitability and capital adequacy and overall performance of NPA in Indian Commercial sector banks.

Chapter 4: A Comparative Analysis of Non-Performing Assets in Punjab National Bank with National Average Performance

This chapter will analyze the NPA on the profitability of Punjab National Bank With National Average Performance in Darbhanga Division.

Chapter 5: Causes and Impact of NPAs on the profitability of Punjab National Bank- A critical study.

This chapter will analyze the causes and impact of NPAs on the profitability of Punjab National Bank.

Chapter 6: Findings, Conclusion, and Suggestions.

This will be the sixth chapter of the present study in which major findings will be presented. Thereafter conclusion will be drawn and suggestions will be put forth for minimizing NPA in Punjab National Bank Bank, in Darbhanga Division.

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